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**USTR BARSHEFSKY AND COMMERCE SECRETARY DALEY COMMEND
PROGRESS BUT VOICE CONCERN OVER DEREGULATION ISSUES IN
U.S.-JAPAN AUTOMOTIVE AGREEMENT**

Washington, DC -- The Clinton Administration, in a report released today, said progress on U.S. efforts to open Japan's auto and auto parts market to foreign manufacturers has been generally positive since the signing of a 1995 agreement, but declared greater progress was needed in the opening of dealerships and deregulation of the auto parts market.

The report also expressed concern over a recent rapid rise in Japanese imports. The third *U.S.-Japan Automotive Agreement Monitoring Report* was issued by an interagency task force formed to monitor progress of the bilateral auto agreement.

The biannual Report cites increased sales of U.S. vehicles produced by the "Big Three" auto manufacturers (Chrysler, Ford, General Motors), a rise in exports of U.S. made auto parts, and the elimination of some restrictive Japanese government regulations.

But it noted areas where progress fell short of Clinton Administration expectations including dealerships and deregulation of the auto parts market and further underscored the importance of accelerated progress in establishing new dealerships and deregulation of the auto parts market.

"Despite market access gains shown by full-year 1996 data, disturbing trends appeared in the first quarter 1997. We don't want to see a significant increase in the Japanese trade surplus. The overall imbalance in U.S.-Japan auto trade and the first quarter surge in Japanese imports requires that we watch this situation closely," said USTR Ambassador Charlene Barshefsky. "We are disappointed with the slow pace of Japanese deregulation. To this point, deregulation efforts have provided very little in the way of meaningful opportunities for U.S. auto parts exporters. Sustainable market access will depend on genuine reforms that open the Japanese distribution system and provide real choices for Japanese consumers -- by that standard, Japan has a long way

to go in meeting the objectives of this agreement.”

“We are pleased that progress continues to be made under the Agreement. U.S. vehicle sales in Japan jumped 34 percent and exports of U.S.-made automotive parts rose to \$2 billion in 1996, an increase of 20 percent over 1995,” said Commerce Secretary William M. Daley. “We must build on this progress to gain greater access to the world’s second largest automotive market and increase progress on dealerships and deregulation. As one of America’s largest employers, the auto industry contributes significantly to the overall health of the economy. Our efforts to open Japan’s automotive market will continue unabated until full and genuine market access is achieved.”

Highlights of the report include:

- Sales in Japan of motor vehicles produced by the Big Three in North America increased by 34 percent in 1996, the first full year of the Agreement. This growth rate exceeds that recorded for imports from Europe (14 percent) and overall vehicle import sales in Japan (10 percent). The Japanese market for vehicle sales grew by only 3 percent in 1996.
- Exports of U.S.-made automotive parts rose to \$2.0 billion in 1996, an increase of 20 percent from 1995. Parts exports were double the level recorded in 1992. Despite these gains, Japan has the lowest foreign market share among developed auto producing countries.
- On February 20, 1997, the Japanese Ministry of Transport (MOT) revised its regulations to allow the operation of Specialized Certified Garages and Special Designated Garages. If this deregulation is implemented as expected, it will facilitate competition and create new opportunities for U.S. parts producers. Specifically, the action will permit smaller independent facilities to undertake repairs or inspections previously limited to dealerships or other MOT certified/designated repair facilities which almost exclusively use automakers' original equipment replacement parts.

In some other key areas, however, progress has fallen well short of U.S. expectations:

- Only 114 new dealer outlets have been added by the Big Three U.S. automakers through direct franchise agreements with Japanese dealerships since the signing of the Agreement, a zero net increase since the last report. While 24 new dealership outlets were added during the past six months, discussions between Chrysler and one dealer principal, with which it had earlier signed a letter of intent, were discontinued. This dealer would have opened 24 new outlets. The Big Three continue to seek high-quality, high-volume dealerships, but report ongoing reluctance by many of these dealers to carry foreign models. Real market access will depend on genuine opening of the Japanese distribution system.

- o On February 5, 1997, the Ministry of Transport denied a petition by the four major U.S. auto parts trade associations requesting deregulation of brake system repairs. MOT has not taken any additional significant deregulatory action with regard to the so-called "critical parts" list issue which were not specifically required in the Agreement. However, on March 28, 1997, the Government of Japan announced, as part of the Prime Minister's Deregulation Action Plan, that MOT will commission an examination of these regulations. The U.S. Government believes that broader deregulation of these requirements is needed.